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UNCLAS SECTION 01 OF 02 ACCRA 002455

SIPDIS

TREASURY FOR ALEX SEVERENS/LUKAS KOHLER
STATE FOR RICH KAMINISKI/LARRY JOHNSTON

E.O. 12958: N/A

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SUBJECT: GHANA: POST SUPPORTS TREASURY'S CONTINUED FUNDING
OF THE GHANA TAX ASSISTANCE PROGRAM

Summary

1. In 2003 the U.S. Treasury Department, with co-funding from USAID, initiated the Ghana Tax Assistance Project, designed to improve management and revenue collection for Ghana's IRS and VAT Service. USAID will end its financial support of the program in February 2005 due to budget constraints and because the Swiss will be providing significant assistance to Ghana's tax arena in the near term. The Ghanaian agencies that have benefited have approached Post to support full Treasury funding at least through year-end 2005. Post discussed the program with Treasury's tax advisors and Government of Ghana (GoG) authorities and concluded the benefits are worthwhile. Post recommends further Treasury funding through the end of 2005. End Summary

Program Background

2. The U.S. Treasury Department's Office of Technical Assistance (OTA) initiated a Ghana Tax Assistance Project in 2002, which was co-funded by USAID. The project has provided training, executive seminars and technical assistance to Ghana's IRS and VAT Services to improve revenue collection. The funding levels were USD 130,000 in CY 2002, USD 270,000 in CY 2003, and projected USD 300,000 for CY 2004. USAID, however, has ceased its financial support of the OTA program due to budget constraints and because the Swiss government is planning to provide assistance to Ghana's tax agencies in the near term. USAID will continue to work on tax policy issues in Ghana. (Note: USAID's financial support for the program officially terminates February 2005, but funding allotted to the tax assistance project has already been spent. End Note)

GOG Accolades for Treasury Consultants

3. There has been positive feedback from Ghana's IRS and VAT services as to the value and benefits of the Treasury expertise. In a recent letter, the Commissioner of the VAT Service, Mr. J.F. Odartey Blankson, stated that Treasury programs and activities contributed significantly to improvements in the outlook and appreciation of tax management and administration issues of participants in their daily activities and to the overall VAT Service planning process. Blankson attributed the VAT Service's improved performance to their enhanced management capacity and human resource capacity. The latter was strongly linked to training programs, which the Treasury program has actively supported. The VAT Service is working to increase human resource capacity to continue improvements in service quality and tax compliance, and has requested continued Treasury assistance towards this end.

4. Ghana's IRS expressed gratitude to Treasury and USAID for the invaluable assistance they have provided, which has made a visible impact on tax administration in Ghana. In a letter from the IRS, Commissioner Janet Opoku-Akyeampong said that Treasury consultants advised the IRS in its production of a new collection manual which led to a doubling of collected revenue in assessed districts during a recent pilot test. The IRS also notes that workshops for executives contributed to the development of the agency's vision and mission statements. Middle level managers lauded the courses on management skills. Currently, Treasury consultants are assisting in formulating an appropriate management succession plan, an audit manual, gaming legislation, and a collection management information system to monitor collection and identify areas that need taxpayer education and compliance. The IRS has indicated that it requires the continued technical assistance of Treasury consultants in order to see these projects through to completion.

Treasury's Measurable Results

5. In addition to GOG feedback, the Tax Assistance Program has produced some impressive statistical results. In 2003, the IRS saw a 43.6 percent increase in revenue collection over 2002. Current estimates for 2004 are for revenue to increase almost an additional 50 percent over 2003. Data from Ghana's Collection Manual Pilot districts are even more impressive. Treasury statistics show that in one district

the revenue collected between January and July of 2004 was 78 percent higher than the same period in 2003; the other district showed a 56 percent increase.

16. Though current indicators are impressive, Treasury consultants expect that revenue collected will continue to increase. Once transportation and telephones are regularly available to Collection and Audit Specialist Inspectors, increased field visits should facilitate the collection of delinquent taxes, the securing of unfiled tax returns and the addition of new non-filer taxpayers to the tax rolls, ultimately increasing voluntary compliance and tax revenues. (Note: USAID recently donated seven vehicles to the IRS to complement the work of the Treasury program, specifically to allow IRS officers to do more field work. Treasury consultants expect this donation to result in higher tax revenues over the next year. End Note)

Program Merits Further Funding

17. USAID has indicated that their funding freeze for the Treasury support is solely due to budgetary constraints and not due to any deficiencies in the program itself. Post believes that terminating the program at this point will interrupt the very good work that has been achieved to date. Post supports the GOG call for continued funding of the program and believes the program benefits are worthwhile. Post recommends continued Treasury Department funding of the Ghana Tax Assistance Project through at least the end of 2005.

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